

MILLIMAN REPORT

Supplemental Report of the Independent Expert to the High Court of Justice in England & Wales on the proposed transfer of business from FM Insurance Company Limited to the UK branch of FM Insurance Europe S.A.

6 November 2024

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1. Purpose and Scope

1.1 I, Derek Newton, prepared a report (the "**Report**") to the Court, dated 29 July 2024 and entitled "*Report of the Independent Expert to the High Court of Justice in England & Wales on the proposed transfer of business from FM Insurance Company Limited to the UK branch of FM Insurance Europe S.A.*".

1.2 The conclusions of the Report were largely based on financial information up to 31 December 2023 and other information available to me when I prepared the Report. Since preparing the Report, I have been provided with more recent financial and other information in respect of **the Companies** (the "**Additional Information**"). Details of the material elements of the Additional Information are set out in Appendix B.

1.3 In paragraphs 1.31 and 2.3 of the Report, I stated that, shortly before the **Court** hearing at which an order sanctioning **the Scheme** will be sought, I would review any relevant matters that might have arisen since the date of the Report (I further referred to such a review in paragraphs 1.48, 2.36, 5.22, 5.42, 6.25, and 9.16 of the Report). Such relevant items would typically include:

- the extent to which the operational plans of **FMI** or **FMIE** have altered (relative to their position at the date of the Report);
- the latest financial statements (both audited and unaudited) of FMI and FMIE (and of their parent, **FMIC**);
- the latest forecast financial statements of FMI and FMIE (and of FMIC); and
- the most recently prepared figures (actual and forecast) relating to the solvency capital position of FMI and FMIE.

I further stated that I would also review the conclusions of my earlier analyses, as set out in the Report, in light of the above relevant items.

1.4 I also said in the Report that I would explicitly consider the following items:

- The operational readiness of FMIE to receive and administer the **Transferring Business**, in particular progress in addressing any data migration concerns and issues within the **FM IT** systems;
- The review by the External Actuarial Function of the TPs as at 30 June 2024, if this review has been completed as at the date of this Supplemental Report;
- The effects, both direct and indirect and both current and projected into the future, upon the Companies' balance sheets and solvency requirements of:
 - Developments relating to the COVID-19 pandemic;
 - Geopolitical developments, specifically those relating to the conflicts in Ukraine; and
 - General economic developments, e.g. regarding inflation and interest rates;
- How the proposed communication plan has worked in practice; and
- The responses received by the Companies to their communications (and how the Companies have reacted to those responses). In particular, I stated that I would consider in detail any and all objections raised to the Scheme.

1.5 This report (the "**Supplemental Report**") provides a brief summary of my review of the Additional Information and explains how, as a result of my review of the Additional Information, I have changed my conclusions, if at all, from those set out in the Report. As such, the Supplemental Report should be considered supplemental to the Report, rather than to supersede it. Unless stated otherwise in the Supplemental Report, all analyses and conclusions as set out in the Report remain valid.

- 1.6 The Supplemental Report should be read in conjunction with the Report and the full terms of the Scheme. The Supplemental Report has been produced on the same basis as set out at Section 1 of the Report. In particular, it has the same scope, and is subject to the same reliances and limitations (in particular, those set out in paragraphs 1.37-1.49 of the Report). Terms used in this Supplemental Report have the same meanings as in the Report (I have attached, in Appendix A, a list of definitions of terms that, when they first appear in this Supplemental Report, are shown in bold type).
- 1.7 Reliance has been placed upon, but is not limited to, the Additional Information, as well as upon the information set out in Appendix B of the Report. My opinions depend on the accuracy and completeness of this data, information and the underlying calculations. I have discussed the Additional Information with the Companies and have considered how it has changed from similar information provided in support of the Report. Except where stated otherwise, I have not re-reviewed the methodology and assumptions used by the Companies in their assessments of the liabilities and solvency capital of their respective firms, and I have not attempted to review in detail the calculations performed. I am unaware of any issue that might cause me to doubt the material accuracy of the Additional Information, but I give no warranty as to its accuracy. Subject to my overriding duty to the Court, I accept no responsibility for errors or omissions arising in the preparation of the Supplemental Report, providing that this shall not absolve my liability arising from an opinion expressed recklessly or in bad faith. I note that the Companies have confirmed to me, in the Letters of Representation that are shown in Appendix C of this Supplemental Report, that, to the best of their knowledge and belief, all data and information that they have provided to me is accurate and complete.
- 1.8 In all cases, I have requested the most recent information available. The Companies have informed me that there have been no developments since the date of the Report, other than as provided in the Additional Information, that might be relevant to the Scheme.
- 1.9 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the **IFoA**, including TAS 100: Principles for Technical Actuarial Work, TAS 200: Insurance and Actuarial Profession Standard X3: The Actuary as an Expert in Legal Proceedings. I have complied with such standards, subject to the principles of proportionality and materiality.
- 1.10 In accordance with Actuarial Profession Standard X2, as issued by the IFoA, I have considered whether this Supplemental Report should be subject to **Work Review**. I concluded that it should, and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Supplemental Report or in the preparation of this Supplemental Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Supplemental Report should be subject to **Independent Peer Review**. I confirm that this Supplemental Report has been subject to Independent Peer Review prior to its publication.
- 1.11 This Supplemental Report has been prepared under the terms of the guidance set out in the **Policy Statement** and in **SUP18**. I have also followed the guidance contained within **FG22/1**.
- 1.12 In paragraph 6.4 of the Report, I explained that certain capital requirements are private matters between insurers and the **PRA** and, therefore, the insurers concerned might consider some of those metrics to be commercially sensitive and thus not to be disclosed in public documents. As part of my analysis, I considered the extent to which FMI and FMIE each held capital in excess of their regulatory solvency levels, and I referred to the ratio of the actual capital held relative to the regulatory solvency capital requirement to be the "**Capital Cover Ratio**". In the Report, I defined the following terms:
- "sufficiently capitalised" refers to a Capital Cover Ratio between 100% and 119%;
 - "more than sufficiently capitalised" refers to a Capital Cover Ratio between 120% and 149%;

- “well-capitalised” refers to a Capital Cover Ratio between 150% and 199%; and
- “very well-capitalised” refers to a Capital Cover Ratio of 200% or more.

In this Supplemental Report, I have adopted the same terminology.

1.13 The remainder of this Supplemental Report follows, for ease of reference, a structure that is similar to that of the Report, albeit omitting background information and explanation that does not require repeating:

- Section 2: I provide an executive summary of this Supplemental Report.
- Section 3: I consider any changes in the information underlying the Report for the Companies. This is equivalent to Section 4 of the Report. I have not repeated in the Supplemental Report the explanation of the regulatory environment in which the Companies operate, which was described in Section 3 of the Report and which has not changed.
- Section 4: I consider whether the Additional Information results in any changes in my view, as expressed in the Report, of the likely impact of the Scheme on the **Transferring Policyholders**. This is equivalent to Section 6 of the Report; I have not repeated in the Supplemental Report the key provisions of the Scheme, which had appeared in Section 5 of the Report.
- Section 5: I consider whether the Additional Information results in any changes in my view, as expressed in the Report, of the likely impact of the Scheme on the **FMI Non-Transferring Policyholders**. This is equivalent to Section 7 of the Report.
- Section 6: I consider the likely impact of the Scheme on those who, as at the Effective Date, are **Current FMIE Policyholders**. This is equivalent to Section 8 of the Report.
- Section 7: I cover more general issues relating to the Scheme and the management of the Companies. This is equivalent to Section 9 of the Report. I also include in this section a description of how the communications plan has proceeded, a summary of the responses, and details regarding all complaints and objections (if any).

1.14 I summarise my conclusions in Section 8.

1.15 I note that, should further information arise, after the date of this Supplementary Report, that I believe is materially relevant to the Scheme and to its application, I will analyse it and will amend my conclusions accordingly. I will then inform the Court of any changes that I would have made to this Supplemental Report had this further information been available earlier, in particular regarding any changes to my conclusions.

2. Executive Summary

CONCLUSION

- 2.1 In paragraph 2.1 of the Report, I set out my conclusions in respect of the impact of the Scheme on the various groups of policyholders who might be affected. I have considered developments that have occurred since the date of the Report, including the latest financial statements for the Companies. While these developments have resulted in some minor changes to some of the metrics that I have used when formulating my views, none have created changes of sufficient magnitude that have caused me to revise my conclusions.
- 2.2 Therefore, in my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so:
- the Scheme will not materially adversely affect the security of benefits to policyholders of either FMI (both the Transferring Policyholders and the FMI Non-Transferring Policyholders) or FMIE; and
 - the Scheme will not affect the service standards experienced by the policyholders of either FMI (both the Transferring Policyholders and the FMI Non-Transferring Policyholders) or FMIE.
- 2.3 These conclusions are unchanged from those set out in paragraph 2.1 in the Executive Summary of the Report.

CHANGES SINCE THE REPORT IN THE ENTITIES CONCERNED IN THE SCHEME

FMI

- 2.4 As at 30 June 2024:
- FMI's balance sheets, on both UK GAAP and Solvency UK bases, are similar but slightly larger (in terms of the value of the capital and reserves) than they were as at 31 December 2023, largely due to a profitable first half of 2024;
 - The Capital Cover Ratio for FMI is slightly lower than it had been as at 31 December 2023, mostly due to US equities forming a larger proportion of FMI's investments, thus increasing the SCR. FMI remains a very well-capitalised company.
- 2.5 The complaints standards for FMI that had been in place hitherto were replaced by an EMEA-wide set of standards in June 2024. Aside from segregating each complaint between two tiers (depending on how easily and how quickly the complaint can be resolved), the EMEA Complaints Standards do not differ materially, in ethos or in targets, from the complaints standards that previously applied within FMI.
- 2.6 I am unaware of any other changes within FMI since the Report that would be relevant to the Scheme.

FMIE

- 2.7 As at 30 June 2024:
- FMIE's balance sheets, both pre- and post-Scheme and on both LuxGAAP and Solvency II bases, are similar but slightly larger (in terms of the value of the capital and reserves) than they were as at 31 December 2023, largely due to a profitable first half of 2024;
 - The pre-Scheme Capital Cover Ratio for FMIE is almost unchanged from its level as at 31 December 2023. However, the post-Scheme Capital Cover Ratio for FMIE, while higher than its pre-Scheme value, is lower than it was as at 31 December 2023, mostly due to US equities forming a larger proportion of FMIE's investments, thus increasing the SCR. FMIE remains a well-capitalised company both pre- and post-Scheme.

- 2.8 As noted in paragraph 2.5, in June 2024 FM introduced a revised set of complaints standards across the EMEA region, including within FMIE. Aside from segregating each complaint between two tiers (depending on how easily and how quickly the complaint can be resolved), the EMEA Complaints Standards do not differ materially, in ethos or in targets, from the complaints standards that previously applied within FMIE.
- 2.9 I am unaware of any other changes within FMIE since the Report that would be relevant to the Scheme.

THE IMPACT OF THE SCHEME UPON THE TRANSFERRING POLICYHOLDERS

- 2.10 Based on my review of the updated information and my consideration of the impact of the updated information upon the results of the stress tests that I discussed in paragraphs 6.56-6.75 of the Report, my conclusions concerning the reserve strength and excess assets of both FMI and FMIE are unchanged from those as set out in the Report. Accordingly, my conclusion remains that the Transferring Policyholders will not be materially adversely affected due to relative differences in the financial strength of FMIE post-Scheme, as compared to that of FMI pre-Scheme.
- 2.11 My conclusions regarding matters other than financial strength, including changes in risk exposures, policy servicing and the position of the Transferring Policyholders in the event of insolvency are also unchanged. I therefore continue to be satisfied that the Scheme will not affect in a materially adverse way either the security or the policy servicing levels of the Transferring Policyholders.

THE IMPACT OF THE SCHEME UPON THOSE POLICYHOLDERS REMAINING WITHIN FMI

- 2.12 As noted in the Report, the FMI Non-Transferring Policyholders will be only those Transferring Policyholders whose policies become, for whatever reason, Excluded Policies. It remains expected that there will be no Excluded Policies.
- 2.13 There have been no changes since the Report that have altered how Excluded Policies (should there be any) will be treated post-Scheme or that are expected to result in material changes in their post-Scheme circumstances. Therefore, I continue to be satisfied that the Scheme will not affect in a materially adverse way either the security or the standards of policy servicing currently enjoyed by the FMI Non-Transferring Policyholders.

THE IMPACT OF THE SCHEME UPON THE CURRENT FMIE POLICYHOLDERS

- 2.14 In the Report, I noted that:
- although the Scheme will make a material difference to FMIE's balance sheets, in relative terms the post-Scheme financial strength of FMIE, and hence the level of financial security offered to the Current FMIE Policyholders will not differ materially from that pre-Scheme; and
 - the Scheme will make no difference to the terms or the servicing of the policies held by the Current FMIE Policyholders.
- 2.15 The Additional Information has not affected these two points and so I remain satisfied that the Scheme will not affect, in a materially adverse way, either the financial security or the policy servicing levels of the Current FMIE Policyholders.

APPROACH TO COMMUNICATION WITH POLICYHOLDERS

- 2.16 I have been informed that all policyholder and other communications concerning the Scheme have been carried out as per the plans detailed in the Report. As at the date of this Supplemental Report, these communications have only triggered a small number of general enquiries and no objections to the Scheme have been received.

OTHER MATTERS

2.17 I note that both FMI and FMIE have confirmed to me that they remain content that the summaries that I included within paragraphs 9.5-9.13 of the Report, regarding the impact on the Companies of the COVID-19 pandemic, of the Ukraine conflict, of the conflict in Gaza (and in the West Bank and Southern Lebanon) and of the economic pressures regarding inflation and interest rates, remain appropriate.

3. Changes since the Report in the entities concerned in the Scheme

3.1 In this section of the Supplemental Report, I set out the elements of the background information and key metrics relating to the entities involved in the Scheme that differ from those stated in the Report as they are based on more recent information.

FMI

Key financial information

3.2 In Figure 3.1, below, I show the UK GAAP balance sheet for FMI as at 30 June 2024, both as it actually was and as it would have been had the Scheme been effective as at that date and had the Intragroup Asset Transfer also taken place as at 30 June 2024. In Figure 3.2, below, I show the same thing but on a Solvency UK basis. Unless there were a material amount of liabilities relating to Excluded Policies, the MCR would be the sterling equivalent of €2.5 million, which is £2.16 million at the 30 June 2024 currency exchange rate of £1 = €1.18. Figure 3.1 and Figure 3.2 replicate Figures 5.3 and 5.4 in the Report, albeit those Figures in the Report were expressed as at 31 December 2023.

FIGURE 3.1. SIMPLIFIED UK GAAP SHEETS FOR FMI AS AT 30 JUNE 2024 (IN £ MILLION)

	Actual	Effect of Scheme and Intragroup Asset Transfer	Post-Scheme and post-transfer
Assets			
Investments	816.7	-816.7	0.0
Debtors	107.0	-107.0	0.0
Reinsurers' share of technical provisions	138.1	-138.1	0.0
Net pension asset	72.7	-72.7	0.0
Other assets	105.8	-81.6	24.2
Total Assets	1,240.3	-1,216.1	24.2
Liabilities			
Capital and reserves	911.6	-906.6	5.0
Gross technical provisions	181.3	-181.3	0.0
Creditors	103.7	-85.8	17.9
Net pension liability	10.4	-10.4	0.0
Other liabilities	33.3	-32.0	1.3
Total Liabilities	1,240.3	-1,216.1	24.2

FIGURE 3.2. SIMPLIFIED SOLVENCY UK BALANCE SHEETS FOR FMI AS AT 30 JUNE 2024 (£ MILLION)

	Actual	Effect of Scheme and Intragroup Asset Transfer	Post-Scheme and post-transfer
Assets			
Investments	823.7	-823.7	0.0
Debtors	68.3	-68.3	0.0
Reinsurers' share of technical provisions	59.3	-59.3	0.0
Net pension asset	72.7	-72.7	0.0
Other assets	104.5	-80.3	24.2
Total Assets	1,128.6	-1,104.4	24.2
Liabilities			
Capital and reserves	911.0	-906.0	5.0
Gross technical provisions	115.0	-115.0	0.0
Creditors	66.0	-48.1	17.9
Net pension liability	10.4	-10.4	0.0
Other liabilities	26.1	-24.8	1.3
Total Liabilities	1,128.6	-1,104.4	24.2

- 3.3 Both Figure 3.1 and Figure 3.2, above, assume that, post-Scheme, there are no Excluded Policies as I understand that the likelihood of there being any Excluded Policies is remote.
- 3.4 The balance sheets in Figure 3.1 and Figure 3.2 are slightly larger than they were as at 31 December 2023, reflecting profits over the first six months of 2024 and a consequential accrued tax liability (£19.2 million). Any outstanding tax liabilities in FMI as at the Effective Date would not be transferred and would remain with FMI post-Scheme, as indicated in the right-hand column of both Figure 3.1 and Figure 3.2.
- 3.5 In Figure 3.3, below, I show the SCRs, MCRs, EOFs and Capital Cover Ratios for FMI as at 30 June 2024, both as they actually were and as they would have been had the Scheme and the Intragroup Asset Transfer been enacted at that date. This is the equivalent of Figure 5.7 in the Report.

FIGURE 3.3. FMI'S SOLVENCY CAPITAL RATIOS AND ELIGIBLE OWN FUNDS AS T 30 JUNE 2024, BOTH PRE AND POST SCHEME (€ MILLION)

	Pre-Scheme		Post-Scheme and post-Intragroup Asset Transfer	
	SCR	MCR	SCR	MCR
Eligible own funds	911.0	911.0	5.0	5.0
Solvency Requirements	437.7	109.4	2.2	2.2
Capital Cover Ratio	208%	832%	232%	232%

- 3.6 Although the EOFs within FMI have increased since the 2023 year-end, so too have the SCR and MCR. This reflects the strong performance over the first half of the US equity market, in which FMI invests much of its surplus assets. This has helped increase not only the EOFs but also the market risk (primarily the equity and currency risk components) within the SCR. The SCR has been further increased in respect of counterparty default risk, due to an increase in the forecasted level of reinsurance recoverable following the increased underwriting activity. These factors have resulted in reduced pre-Scheme Capital Cover Ratios as at 30 June 2024, albeit that they remain at a level consistent with FMI currently being a very well-capitalised insurer. The post-Scheme Capital Cover Ratios are unchanged from those as at 31 December 2023.

Policy servicing

- 3.7 I stated in the Report that the complaints standards for FMI (and for FMIE) were being reviewed with the intention of implementing an EMEA-wide set of standards. That review has since concluded and the EMEA Complaints Standards has been implemented, replacing that which previously existed in FMI and in FMIE.
- 3.8 According to the EMEA Complaints Standards, complaints are categorised as follows:
- “**Tier 1 Complaints**” are those that can be resolved (i) by the local client service team or operational (or equivalent) management, or (ii) with the involvement of divisional or higher-level management, during the first business day following receipt.
 - “**Tier 2 Complaints**” are those that cannot be resolved during the first business day following receipt and without the involvement of divisional or higher-level management.
- 3.9 The EMEA Complaints Standards have been framed in the context of the Code of Conduct. Complaints must be handled in a fair, transparent and timely manner. There is emphasis on keeping communication lines open and on conducting the process in a manner that will achieve a satisfactory result for both parties.
- 3.10 For Tier 2 Complaints, a written acknowledgement must be sent to the complainant within five business days of receipt and a final response (or, if it has proved impossible to resolve the complaint within that period, a holding letter) must be sent to the complainant within twenty business days. This latter timeframe is tighter than it was under FMI’s previous standards. In the event that a holding letter has been sent, further holding letters must be sent within twenty business day intervals until the matter is finally resolved and a final response can be sent.
- 3.11 The internal reporting and management standards that apply to Tier 2 Complaints are more onerous than those that apply to Tier 1 Complaints.
- 3.12 I have been told that all other aspects of policy servicing within FMI remain unaltered from the explanations that I provided in the Report.

Other

- 3.13 Nothing in the Additional Information that I have received has caused me to revise my comments in the Report regarding the following:
- The background to FMI and to the Transferring Business;
 - FMI’s governance;
 - FMI’s risk management and risk appetite – the risk profile within FMI also remains largely unchanged;
 - FMI’s reinsurance arrangements;
 - The performance guarantee provided to FMI by FMIC;
 - FMI’s capital management;
 - FMI’s reserving policies and practices (I explained in the Report that the External Actuarial Function conducts a formal review of FMI’s TPs every two years and that it was due to conduct its next review as at 30 June 2024. I understand that this review is now underway but that it is not expected to be finalised before December 2024, after the publication date of this Supplemental Report);
 - The plans for FMI; and
 - The financial strength ratings of FMI by Standard & Poor’s, by AM Best and by Fitch.
- 3.14 I am not aware of any market developments that have materially affected FMI between the dates of the Report and this Supplemental Report.

FMIE**Key financial information**

3.15 In Figure 3.4, below, I show the LuxGAAP balance sheet for FMIE as at 30 June 2024, both as it actually was and as it would have been had the Scheme been effective as at that date and had the Intragroup Asset Transfer also taken place as at 30 June 2024. In Figure 3.5, below, I show the same thing but on a Solvency II basis. Figure 3.4 and Figure 3.5 replicate Figures 5.5 and 5.6 in the Report, albeit those Figures in the Report were expressed as at 31 December 2023. I have also shown (in italics) the post-Scheme balance sheets for the FMIE UK Branch – these balance sheet amounts are included in the post-Scheme and post-Intragroup Asset Transfer balance sheets for FMIE.

FIGURE 3.4. SIMPLIFIED LUXEMBOURG GAAP BALANCE SHEETS FOR FMIE AS AT 30 JUNE 2024 (€ MILLION)

	Actual	Effect of Scheme and Intragroup Asset Transfer	Post-Scheme and post- transfer	<i>Post-Scheme UK Branch</i>
<u>Assets</u>				
Investments	922.4	935.7	1,858.1	164.5
Reinsurers' share of technical provisions	590.6	162.3	752.9	<i>162.3</i>
Debtors and salvage	422.2	125.7	547.9	<i>125.7</i>
Net pension asset	102.5	85.4	187.9	<i>85.4</i>
Cash or cash equivalent	167.3	126.2	293.5	<i>126.1</i>
Other assets	29.2	15.9	45.1	<i>15.9</i>
Total Assets	2,234.2	1,451.2	3,685.4	679.9
<u>Liabilities</u>				
Capital and reserves	852.0	1,065.0	1,917.0	293.7
Gross technical provisions	846.2	213.0	1,059.2	<i>213.0</i>
Creditors	239.9	121.8	361.7	<i>121.8</i>
Net pension liability	114.8	12.2	127.0	<i>12.2</i>
Provision for other risks and charges	133.0	20.3	153.3	<i>20.3</i>
Accruals and deferred income	48.3	18.9	67.2	<i>18.9</i>
Total Liabilities	2,234.2	1,451.2	3,685.4	679.9

FIGURE 3.5. SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR FMIE AS AT 30 JUNE 2024 (€ MILLION)

	Actual	Effect of Scheme and Intragroup Asset Transfer	Post-Scheme and post- transfer	Post-Scheme UK Branch
Assets				
Investments	985.5	967.6	1,953.1	182.0
Reinsurers' share of technical provisions	292.2	69.7	361.9	69.7
Net pension asset	81.9	85.4	167.3	85.4
Cash or cash equivalent	167.3	104.0	271.3	104.0
Other assets	335.4	99.1	434.5	99.1
Total Assets	1,862.3	1,325.8	3,188.1	540.2
Liabilities				
Capital and reserves	893.7	1,070.1	1,963.8	284.6
Gross technical provisions	584.4	135.1	719.5	135.1
Creditors	102.5	77.5	180.0	77.5
Net pension liability	94.3	12.2	106.5	12.2
Other provisions	132.9	20.1	153.0	20.1
Other liabilities	54.5	10.7	65.2	10.7
Total Liabilities	1,862.3	1,325.7	3,188.0	540.2

- 3.16 I note that Figure 3.4 and Figure 3.5 are subject to the same qualifications as I set out in the Report in paragraph 5.30.
- 3.17 The balance sheets in Figure 3.4 and Figure 3.5 are slightly larger than they were as at 31 December 2023. As had been the case with FMI, this largely reflects profitable operations during the first half of 2024 (both in terms of the combined ratio and because of strong investment performance, led by the US equity portfolio) and the consequential increase in the tax liabilities. On a Solvency II basis, as a result of advice from the Actuarial Function, some provisions that, as at the 2023 year-end, had been netted off against each other are now shown explicitly as assets and liabilities.
- 3.18 In Figure 3.6, below, I show the SCRs, MCRs EOFs and Capital Cover Ratios for FMIE as at 30 June 2024, both as they actually were and as they would have been had the Scheme and the Intragroup Asset Transfer been enacted at that date. I also show the same measures, post-Scheme, for the FMIE UK Branch. This is the equivalent of Figure 5.8 in the Report.

FIGURE 3.6. FMIE'S SOLVENCY CAPITAL RATIOS AND ELIGIBLE OWN FUNDS AS AT 30 JUNE 2024, BOTH PRE AND POST SCHEME (€ MILLION)

	Pre-Scheme		Post-Scheme and post- Intragroup Asset Transfer		UK Branch Post-Scheme	
	SCR	MCR	SCR	MCR	SCR	MCR
Eligible own funds	893.7	893.7	1,963.8	1,963.8	284.6	284.6
Solvency Requirements	572.2	143.1	1,099.2	274.8	179.9	45.0
Capital Cover Ratio	156%	625%	179%	715%	158%	633%

3.19 Both the EOFs and SCR within FMIE have increased since the 2023 year-end, leaving the pre-Scheme Capital Cover Ratios as at 30 June 2024 virtually unaltered from their levels as at 31 December 2023. Had the Scheme and the Intragroup Asset Transfer occurred as at 30 June 2024 then, as set out in the Report, the resultant Capital Cover Ratio would have been larger than it had been pre-Scheme, albeit to a lesser extent than it would have been had the Scheme and transfer been effective as at 31 December 2023. I note that, as at both dates, the post-Scheme Capital Cover Ratios in FMIE would have been consistent with FMIE being a well-capitalised insurer. The causes for the movements over the first half of 2024 in the EOFs and SCRs are similar to those described in relation to FMI in paragraph 3.6, above.

Policy servicing

3.20 As explained above in paragraphs 3.7-3.11, the EMEA Complaints Standards, which at the time of the Report had been in development, has been implemented, replacing those standards that previously existed in FMI and in FMIE.

3.21 I have been told that all other aspects of policy servicing within FMI remain unaltered from the explanations that I provided in the Report.

Other

3.22 Nothing in the Additional Information that I have received has caused me to revise my comments in the Report regarding the following:

- The background to FMIE, to the FMIE UK Branch and to the Transferring Business;
- FMIE's governance;
- FMIE's risk management and risk appetite – the risk profile within FMIE also remains largely unchanged;
- FMIE's reinsurance arrangements;
- The performance guarantee provided to FMIE by FMIC;
- FMIE's capital management;
- FMIE's reserving policies and practices (save the aforementioned splitting out between assets and liabilities in the Solvency II balance sheet of some items that had hitherto been netted off against each other);
- The plans for FMIE; and
- The financial strength ratings of FMIE by Standard & Poor's, by AM Best and by Fitch.

3.23 I am not aware of any market developments that have materially affected FMIE or the FMIE UK Branch between the dates of the Report and this Supplemental Report.

Transferring Business

3.24 In Figure 3.7, below, I provide a table setting out the numbers of policies that could have been affected by the Scheme had it taken place as at 30 June 2024. This table is an update of that shown in Figure 5.2 in the Report. It should be noted that the numbers under FMIE include the numbers under the FMIE UK Branch.

FIGURE 3.7. NUMBERS OF POLICIES INVOLVED IN THE SCHEME, HAD THE EFFECTIVE DATE BEEN 30 JUNE 2024

	Pre-Scheme			Post-Scheme		
	FMI	FMIE	FMIE UK Branch	FMI	FMIE	FMIE UK Branch
Policies with open claims (excluding Category C)	106	222	0	0	328	106
Policies with open claims (Category C only)	146	0	0	0	146	146
Policies that are not yet fully expired	646	1,406	0	0	2,052	646
Policies that have been bound but not yet incepted	51	88	0	0	139	51
Total	949	1,716	0	0	2,665	949

3.25 Since the 2023 year-end:

- 22 of the then open FMI (not Category C) claims have been closed (this equates to 20% of the claims open as at 31 December 2023);
- No then open category C claims have been closed;
- 22 FMI (not Category C) claims relating to 2024 events have been reported, of which four have already been closed;
- 133 of the then open FMIE claims have been closed (this equates to 38% of the claims open as at 31 December 2023);
- 147 FMIE claims relating to 2024 events have been reported, of which 24 have already been closed.

3.26 The numbers of open claims that have been closed during the first half of 2024 is consistent with the short-tailed nature of the business written by FMI and FMIE.

FMIC

3.27 I have been provided with the US GAAP balance sheet of FMIC as at 30 June 2024 and note that, as at that date (with the equivalent figures as at 31 December 2023 in parenthesised italics) and on a consolidated basis, its assets totalled \$37.1 billion (*\$34.5 billion*), of which its equities were valued at \$15.1 billion (*\$13.4 billion*), debt securities at \$9.9 billion (*\$9.2 billion*), and real estate and other securities at \$3.8 billion (*\$3.6 billion*). As at the same date, its insurance liabilities totalled \$10.0 billion (*\$10.0 billion*), and its available capital was \$24.9 billion (*\$22.5 billion*). Its in-force gross premiums are \$10.8 billion and it is currently running with a combined ratio of 61.9%.

3.28 In the Report, I concluded that FMIC's balance sheet (as at 31 December 2023) was very strong and that the likelihood of FMIC being unable to meet its reinsurance liabilities in full (in particular those relating to FMI and FMIE, both pre-and post-Scheme) appeared to me to be remote. FMIC's balance sheet as at 30 June 2024 is stronger than it was as at 31 December 2023 and so my conclusion regarding FMIC's ability to meet its obligations to FMI and FMIE remains unchanged.

OPERATIONAL READINESS

3.29 In the Report, I noted that a report on operational readiness was being developed but had yet to be finalised. The report has since been completed and covers:

- Staffing and resources, specifically the TUPE transfer of the FMI staff to the FMIE UK Branch, which was discussed in the Report;
- Policy and claims administration, specifically that, as discussed in the Report, no changes are proposed and that the Transferring Assets includes all documents, files and other records relating to the Transferring Business, as well as supporting IT and other systems;

- IT systems: although the same policy and claims management systems will be used post-Scheme by the FMIE UK Branch as have been used pre-Scheme by FMI for policy servicing purposes, some of those systems will require minor amendment to reflect the change in carrier and further testing is required to ensure that there is no discontinuity in service caused by the transfers. I have been told by FM that all planned changes have now been completed and that the testing has also been completed with satisfactory results.
- Governance – the changes in FMIE’s governance, to reflect the existence of the FMIE UK Branch, were discussed in the Report and no further changes are considered necessary.

4. The impact of the Scheme on the Transferring Policyholders

4.1 In this section of the Supplemental Report, I consider the changes in FMI and in FMIE that I outlined in Section 3 and how (if at all) those changes might affect the conclusions that I set out in the Report regarding the effect of the Scheme upon the Transferring Policyholders.

STRENGTH OF THE TECHNICAL PROVISIONS OF BOTH FMI AND FMIE

4.2 As mentioned above in paragraphs 3.13 and 3.22, the reserving policies and practices for FMI and FMIE respectively remain, as at 30 June 2024, unaltered from those described in the Report as applying as at 31 December 2023. I have been told that FMI and FMIE consider their Technical Provisions as at 30 June 2024, on both a GAAP or Solvency II/UK basis, as being neither weaker nor stronger than they were as at 31 December 2023. I have found no reason to think otherwise.

4.3 Therefore, I have updated the opinions that I expressed in paragraphs 6.27 and 6.33 of the Report and am satisfied that:

- the Technical Provisions held by FMI as at 30 June 2024 appear reasonable on both UK GAAP and Solvency UK bases; and
- the Technical Provisions held by FMIE as at 30 June 2024 appear reasonable on both LuxGAAP and Solvency II bases.

4.4 As explained in the Report, I have been told that neither FMI nor FMIE has any plans to amend their respective reserving policies and practices. Therefore, I have updated the opinions that I expressed in paragraphs 6.35 and 6.38 of the Report and am satisfied that implementation of the Scheme will cause no material change to the strength of the reserves held, post-Scheme, by either FMI or FMIE.

4.5 In Figure 4.1, below, I show the composition of the claims provisions, both gross and net of reinsurance, for the various entities as at 30 June 2024 on a local GAAP basis. In Figure 4.2, below, I show the same but on a Solvency UK/Solvency II basis.

FIGURE 4.1. CLAIMS RESERVES WITHIN FMI (PRE-SCHEME) AND FMIE (BOTH PRE AND POST-SCHEME) AS AT 30 JUNE 2024, ON A GAAP BASIS

GROSS OF REINSURANCE	FMI Pre-Scheme (£ million)	FMIE Pre-Scheme (€ million)	FMIE Post-Scheme (€ million)
Goods in transport	4.0	1.9	6.7
Fire and other risks to property	61.0	157.3	228.9
Miscellaneous financial loss	0.0	143.8	143.8
Inward reinsurance	5.7	1.9	8.6
Total	70.7	304.9	388.0

NET OF REINSURANCE	FMI Pre-Scheme (£ million)	FMIE Pre-Scheme (€ million)	FMIE Post-Scheme (€ million)
Goods in transport	2.8	1.3	4.6
Fire and other risks to property	11.6	64.7	78.3
Miscellaneous financial loss	0.0	34.8	34.8
Inward reinsurance	0.8	1.2	2.2
Total	15.2	102.0	119.9

FIGURE 4.2. CLAIMS RESERVES WITHIN FMI (PRE-SCHEME) AND FMIE (BOTH PRE AND POST-SCHEME) AS AT 30 JUNE 2024, ON A SOLVENCY UK/SOLVENCY II BASIS

GROSS OF REINSURANCE	FMI Pre-Scheme (£ million)	FMIE Pre-Scheme (€ million)	FMIE Post-Scheme (€ million)
Marine, Aviation and transport insurance	3.7	1.1	5.5
Fire and other damage to property insurance	56.6	148.7	175.6
Miscellaneous financial loss	0.0	135.9	175.5
Non-proportional marine, aviation and transport reinsurance	0.6	0.0	0.6
Non-proportional property reinsurance	4.8	1.7	5.6
Total	65.7	287.4	362.8

NET OF REINSURANCE	FMI Pre-Scheme (£ million)	FMIE Pre-Scheme (€ million)	FMIE Post-Scheme (€ million)
Marine, Aviation and transport insurance	2.6	1.2	4.3
Fire and other damage to property insurance	10.7	62.4	68.4
Miscellaneous financial loss	0.0	34.4	41.1
Non-proportional marine, aviation and transport reinsurance	0.6	0.0	0.6
Non-proportional property reinsurance	0.2	1.2	1.4
Total	14.1	99.2	115.8

4.6 I note that, in Figure 4.2, above, the sum of the pre-Scheme amounts for FMI and FMIE are not the same by individual line of business as the post-Scheme amounts for FMIE. This is because FMI has historically classified Miscellaneous Financial Losses claims alongside the first peril whereas, for Solvency II purposes, FMIE has presented it separately. I further note that the sum of the Totals for FMI and FMIE pre-Scheme are the same as the Total for FMIE post-Scheme.

4.7 I indicated in the Report that the outstanding claims (aside from those relating to the Category C business) are expected to run-off relatively quickly. I have illustrated this below, in Figure 4.3, using the run-off patterns expected by FMI and FMIE, based on their respective claims reserves as at 30 June 2024. I have estimated the post-Scheme run-off pattern for FMIE based on a weighted average of the pre-Scheme patterns of the two entities.

FIGURE 4.3. EXPECTED RUN-OFF OF THE CLAIMS RESERVES WITHIN FMI (PRE-SCHEME) AND FMIE (BOTH PRE AND POST-SCHEME) AS AT 30 JUNE 2024

	Year 1	Year 2	Year 3	Year 4	Year 5
FMI pre-Scheme	79.5%	30.3%	16.1%	0.4%	0.0%
FMIE pre-Scheme	70.0%	19.3%	9.4%	1.0%	0.0%
FMIE post-Scheme	72.0%	21.7%	10.9%	0.8%	0.0%

EXCESS ASSETS OF BOTH FMI AND FMIE

4.8 I set out in Section 3, above, the SCRs and EOFs for FMI and FMIE as at 30 June 2024, both as they were and as they would have been had the Scheme been effective as at that date. For FMI (pre-Scheme) and for FMIE (both pre-Scheme and post-Scheme), the resultant Capital Cover Ratios are lower than those as at 31 December 2023, as I set out in the Report (for FMI post-Scheme there is no change in the Capital Cover Ratio as the EOFs and SCR are unchanged). The reductions are despite both entities enjoying profitable first halves of the year and reflect primarily the strong investment performance of US equities, which therefore now comprise a higher proportion of both entities' investment portfolios, and the higher market risk charges that such assets attract (both through equity risk and currency risk). However, as at 30 June 2024, FMI remained, pre-Scheme, a very well-capitalised company, and FMIE remained, both pre-Scheme and post-Scheme, a well-capitalised company.

4.9 FMIE has provided me with projections of its post-Scheme EOFs and SCR, as at 31 December 2024 and as at the subsequent two year-ends. These have been updated from those upon which I reported on in the Report and are now based on data as at 30 June 2024 rather than as at 31 December 2023. These show that, throughout the period to 31 December 2026, FMIE's post-Scheme Capital Cover Ratio is expected to be relatively consistent, at a level that would mark FMIE as being a well-capitalised insurer. The projected post-Scheme Capital Cover Ratios for FMIE that I discussed in the Report were higher, consistent with FMIE then being, or nearly being, a very well-capitalised insurer. The reduction in the Capital Cover Ratios is attributed mostly to the higher-than-expected proportion of the investment portfolio that comprises US equities, a proportion that is projected to increase based on the current economic and investment forecasts. The higher forecasted level of reinsurance recoverables that results from the increased underwriting activity is also increasing the SCR and thus reducing the Capital Cover Ratio.

RELATIVE FINANCIAL STRENGTH ENJOYED BY TRANSFERRING POLICYHOLDERS PRE- AND POST-SCHEME

- 4.10 I concluded in the Report that the Transferring Policyholders currently benefit from the financial strength provided by a very well-capitalised company and will, post Scheme, benefit from the financial strength provided by a company that would be well-capitalised, and which would be expected to remain well-capitalised throughout the 2024-2026 planning period. Therefore, relative to the solvency capital requirements of the respective entities, the Transferring Policyholders will see only a marginal reduction in the financial security afforded to them. The changes in the balance sheets, Capital Cover Ratios, etc. as at 30 June 2024 relative to their position as at 31 December 2023 have been insufficient for me to revise that conclusion.
- 4.11 In the Report, I described some further tests that I had made regarding the ability of FMI's pre-Scheme balance sheet and FMIE's balance sheet, both pre-Scheme and post-Scheme, all as at 31 December 2023, to withstand various adverse circumstances. I have repeated those tests in respect of the balance sheets as at 30 June 2024 and I show the results of those tests in Figure 4.4-Figure 4.6, below. I have added two further tests, whereby I have assessed the impact on the balance sheets of an immediate 25% increase in the gross of reinsurance technical provisions with no corresponding change in the ceded technical provisions (Stress Test 5) and of an immediate 50% increase in the net of reinsurance technical provisions (Stress Test 6). I also show, in Figure 4.7, the absolute increases in the Capital Cover Ratios for each of the balance sheets and for each of stresses 1-4 between 31 December 2023 and 30 June 2024.

FIGURE 4.4. THE IMPACT OF DIFFERENT STRESSES UPON THE ELIGIBLE OWN FUNDS OF FMI AND OF FMIE (BOTH PRE AND POST-SCHEME) AS AT 30 JUNE 2024

	FMI pre-Scheme (£ million)	FMIE pre-Scheme (€ million)	FMIE post-Scheme (€ million)
Base Case	911.0	919.4	1,963.8
Stress test 1 50% reduction in the value of the equity portfolio	658.2	640.7	1,414.1
Stress test 2 25% reduction in the value of the bond portfolio	833.2	812.5	1,791.5
Stress test 3 Increase gross incurred losses by five years	846.6	705.6	1,749.1
Stress test 4 Write-off of FMIC reinsurance asset	888.0	611.3	1,606.1
Stress test 5 Increase gross claims provisions by 25%	869.5	665.9	1,687.6
Stress test 6 Increase net claims provisions by 50%	891.7	749.2	1,797.0

FIGURE 4.5. THE IMPACT OF DIFFERENT STRESSES UPON THE SCR OF FMI AND OF FMIE (BOTH PRE AND POST-SCHEME) AS AT 30 JUNE 2024

	FMI pre-Scheme (£ million)	FMIE pre-Scheme (€ million)	FMIE post-Scheme (€ million)
Base Case	437.7	572.2	1,099.2
Stress test 1 50% reduction in the value of the equity portfolio	295.7	436.1	796.1
Stress test 2 25% reduction in the value of the bond portfolio	422.6	549.6	1,055.7
Stress test 3 Increase gross incurred losses by five years	491.7	748.9	1,353.7
Stress test 4 Write-off of FMIC reinsurance asset	426.0	529.2	1,036.5
Stress test 5 Increase gross claims provisions by 25%	434.9	565.8	1,076.8
Stress test 6 Increase net claims provisions by 50%	437.7	574.7	1,088.9

FIGURE 4.6. THE IMPACT OF DIFFERENT STRESSES UPON THE CAPITAL COVER RATIOS OF FMI AND OF FMIE (BOTH PRE AND POST-SCHEME) AS AT 30 JUNE 2024

	FMI pre-Scheme	FMIE pre-Scheme	FMIE post-Scheme
Base Case	208%	161%	179%
Stress test 1 50% reduction in the value of the equity portfolio	223%	147%	178%
Stress test 2 25% reduction in the value of the bond portfolio	197%	148%	170%
Stress test 3 Increase gross incurred losses by five years	172%	94%	129%
Stress test 4 Write-off of FMIC reinsurance asset	208%	116%	155%
Stress test 5 Increase gross claims provisions by 25%	200%	118%	157%
Stress test 6 Increase net claims provisions by 50%	204%	130%	165%

FIGURE 4.7. THE CHANGES IN THE STRESSED CAPITAL COVER RATIOS OF FMI AND OF FMIE (BOTH PRE AND POST-SCHEME) BETWEEN 31 DECEMBER 2023 AND 30 JUNE 2024

	FMI pre-Scheme	FMIE pre-Scheme	FMIE post-Scheme
Base Case	-23%	5%	-10%
Stress test 1 50% reduction in the value of the equity portfolio	-24%	9%	-7%
Stress test 2 25% reduction in the value of the bond portfolio	-22%	4%	-7%
Stress test 3 Increase gross incurred losses by five years	-14%	14%	3%
Stress test 4 Write-off of FMIC reinsurance asset	2%	9%	2%

4.12 I note that:

- For Stress Test 3, I have considered the losses incurred over the five year period to 30 June 2024, rather than to 31 December 2023. This marginally increases the stressed gross loss ratio to 257% (for the stress test shown in the Report, it had been 256%).
- Stress Test 4 assumes significant reinsurance non-performance. For ease of calculation, the effect of the stress has been calculated by writing-off all reinsurance recoveries relating to reinsurance provided by FMIC. As at 30 June 2024, this would equate to:
 - 47% of the pre-Scheme reinsurance asset for FMI;
 - 48% of the pre-Scheme reinsurance asset for FMIE; and
 - 48% of the post-Scheme reinsurance asset for FMIE.

I described in the Report how FM evaluates its capital robustness. I note that, since the date of the Report, the US ORSA has been reperformed and was finalised in October 2024. This indicates that, in the event of the modelled 1 in 500 return period event (compared to a 1 in 200 period event in Solvency II models), the available capital within FMIC, which was \$22.5 billion would have reduce by \$7.6 billion (to \$14.9 billion, which is more than the \$11.9 billion indicated by the US ORSA from October 2023).

- The reinsurance programmes that apply to FMI and to FMIE mean that it is highly unlikely that a material movement in the gross technical provisions would not be, at least partially, balanced by a corresponding movement in the ceded technical provisions. Therefore, Stress Tests 5 and 6 are for illustrative purposes. Although extreme, their effects are less than that of Stress Test 3, which models a very large increase in gross losses along with a corresponding increase in ceded losses.
 - The increased technical provisions under Stress Tests 5 and 6 would be backed by appropriately dated fixed interest investments in appropriate currencies, which would thus reduce the exposures of the entities to equities and US dollar investments, which in turn would reduce the currency and equity risk, largely offsetting the increased insurance risk.
- 4.13 As discussed in paragraph 3.19, above, the performance of the business during the first half of 2024, in particular the strong showing of the US equity portfolio, has resulted in a lower base case Capital Cover Ratios as at 30 June 2024 than as at 31 December 2023. As shown in Figure 4.7, above, it has also resulted in both FMI's pre-Scheme Solvency UK balance sheet and FMIE's post-Scheme Solvency II balance sheet being slightly more vulnerable to severe stresses in the equity and bond portfolios and slightly more resistant in the face of a write-off of the reinsurance asset provided by FMIC (I have discussed the strength of FMIC as at 30 June 2024 in paragraphs 3.27-3.28, above, and again in the latter part of paragraph 4.12, above). In the face of severe stresses in incurred losses, FMI's pre-Scheme Solvency UK balance sheet is slightly more vulnerable as at 30 June 2024 than it was as at 31 December 2023 whereas FMIE's post-Scheme Solvency II balance sheet is slightly more robust. However, the key word in these comparisons is "slightly" – the results of the four stress tests as applied to FMI pre-Scheme and to FMIE both pre- and post-Scheme, all as at 30 June 2024, are very similar to those applied as at 31 December 2023 and discussed at length in the Report. They continue to show that, even in the extreme conditions of stresses 1, 2 and 4, FMIE post-Scheme would remain a well-capitalised insurer and that in the extreme condition of stress 3 it would be more than sufficiently capitalised.
- 4.14 In the Report, I discussed in broad terms the likelihood of stresses 1-4 occurring. Since the date of the Report, I have not changed my view of the likelihoods, which would equate to:
- Stress test 1: a return period of at least 100 years;
 - Stress test 2: a return period of at least 100 years;
 - Stress test 3: a return period of about 400 years;
 - Stress test 4: a return period in excess of 500 years.

Reverse stress test

- 4.15 I have also repeated the reverse stress test as set out in the Report whereby I considered what combination of stresses would result in FMIE, post-Scheme, becoming insolvent, i.e. for its capital to be exhausted. The result is very similar to that explained in the Report, and comprises stresses 1, 2 and 4 together with a stressed gross loss experience (i.e. a less extreme version of stress 3). I remain of the opinion that the likelihood of these four stresses occurring at the same time is extremely remote.

Conclusion regarding the relative financial strength enjoyed by Transferring Policyholders pre- and post-Scheme

- 4.16 I continue to view FMI, pre-Scheme, as very well-capitalised and FMIE, post-Scheme, as well-capitalised. I also continue to hold the opinion that the likelihood of either FMI (pre-Scheme) or FMIE (post-Scheme) becoming insolvent and hence unable to meet their contractual obligations to be remote. The difference in the relative probabilities of FMI (pre-Scheme) or FMIE (post-Scheme) becoming insolvent is negligible. Therefore, I remain satisfied that the Transferring Policyholders will not be materially adversely affected due to any differences in the financial strength of FMIE post-Scheme to those of FMI pre-Scheme.

CHANGES IN RISK EXPOSURES

4.17 In paragraphs 6.76-6.79 of the Report, I discussed the effect that the Scheme will have on the profile of the risks to which the Transferring Policyholders are exposed. While FMI (pre-Scheme) and FMIE (both pre-Scheme and post-Scheme) are subject to broadly similar types of risk, the differences that I noted then as at 31 December 2023 remain broadly in place as at 30 June 2024 in that:

- FMI (pre-Scheme) is smaller than FMIE (both pre-Scheme and post-Scheme).
- FMIE (both pre-Scheme and post-Scheme) is exposed to wider geographical range of risk spread than is FMI (pre-Scheme). This also provides greater diversification of risk.
- The risks of FMI (pre-Scheme), as measured by its pre-diversification SCR, are dominated by market risk, even more so that they had been as at 31 December 2023. In FMIE (both pre-Scheme and post-Scheme), market risk remains the pre-eminent risk, but other risk types (insurance risk, credit risk and operational risk) are more significant than they are in FMI (pre-Scheme). This is illustrated in Figure 4.8, below.

FIGURE 4.8. THE PROPORTIONS OF THE PRE-DIVERSIFICATION SCRS BY RISK TYPE FOR FMI AND FMIE AS AT 30 JUNE 2024

	FMI pre-Scheme	FMIE pre-Scheme	FMIE post-Scheme
Non Life	6.8%	26.7%	17.2%
Market	102.1%	67.8%	84.1%
Counterpart Risk	8.5%	15.8%	13.6%
Operational Risk	1.5%	5.4%	3.7%

4.18 Figure 4.8 is essentially an update of Figure 6.5 in the Report, which shows a very similar pattern of the spread of risks between the entities, pre- and post-Scheme. Therefore, as the expected effect of the Scheme on the risk exposures of the Transferring Policyholders remains broadly the same based on data as at 30 June 2024 as it did when based on data as at 31 December 2023, as per the Report, I have no reason to change the conclusions regarding risk exposures that I set out in the Report. I remain satisfied that, although the proposed Scheme will lead to some change to the risk exposures of the Transferring Business, the change in risk exposures will not have a materially adverse impact on the security of the Transferring Policyholders' benefits.

OTHER CONSIDERATIONS

4.19 In the Report, I also reported on the following issues, in so far as they might affect the Transferring Policyholders:

- How the experience of the Transferring Policyholders would differ between pre and post Scheme in the event of the insolvency of one of the Companies;
- The impact of the Scheme on policy servicing (the only change in policy servicing since the Report being the harmonisation between FMI and FMIE of the complaints procedure); and
- The impact of the Scheme on how policyholder complaints and applications for compensation would be dealt with.

4.20 As at the date of this Supplemental Report, I am unaware of any developments that would be sufficiently material to cause me to amend my analysis of any of the above issues, or to change the conclusions on each that I set out in Section 6 of the Report.

5. The impact of the Scheme on the FMI Non-Transferring Policyholders

- 5.1 In this section of the Supplemental Report, I consider the changes in FMI that I outlined in Section 3 and how (if at all) those changes might affect the conclusions that I set out in the Report regarding the effect of the Scheme upon the FMI Non-Transferring Policyholders (i.e. those holders of policies that become Excluded Policies). There will be no other policyholders of FMI whose policies are not transferred by the Scheme to FMIE. As I noted in the Report, it is expected that there will be no Excluded Policies.
- 5.2 There have been no changes in the first half of 2024 that have altered how Excluded Policies (should there be any) will be treated post-Scheme or that are expected to result in material changes in their post-Scheme circumstances. Therefore, echoing the conclusion that I set out in paragraph 7.5 of the Report, I continue to be satisfied that the Scheme will not affect in a materially adverse way the security of the contractual rights of, or the standards of policy servicing currently enjoyed by, the FMI Non-Transferring Policyholders (i.e. any holders of FMI policies that become Excluded Policies).

6. The impact of the Scheme on the Current FMIE Policyholders

6.1 In this section of the Supplemental Report, I consider the changes in FMI and in FMIE that I outlined in Section 3 and how (if at all) those changes might affect the conclusions that I set out in the Report regarding the effect of the Scheme upon the Current FMIE Policyholders.

RELATIVE FINANCIAL STRENGTH ENJOYED BY THE CURRENT FMIE POLICYHOLDERS PRE- AND POST-SCHEME

6.2 As at 30 June 2024, the Current FMIE Policyholders continue to benefit from the financial strength provided by a well-capitalised company. I have concluded in paragraph 3.19, above, that, post-Scheme, FMIE will also be well-capitalised, and that, according to projections provided to me by FMIE, it will remain well-capitalised as at the next three year-ends. As described in paragraphs 4.11-4.15, above, I have also re-performed the stress tests on FMIE's post-Scheme balance sheet and have concluded that it would remain robust in the face of extreme stresses. Therefore, I remain satisfied that the Current FMIE Policyholders will not be materially adversely affected due to relative differences in the financial strength of FMIE pre-Scheme and post-Scheme.

CHANGES IN RISK EXPOSURES

6.3 As noted in paragraphs 4.17-4.18, above, the Scheme will result in some relatively minor changes in the profile of the risks to which the Current FMIE Policyholders are exposed. However, based on data as at 30 June 2024, the changes are not only relatively minor but are also broadly the same as those that I discussed in paragraphs 8.5-8.8 of the Report. Therefore, I remain satisfied that the Scheme will not lead to any material change in the risk exposures of the Current FMIE Policyholders.

OTHER MATTERS

6.4 In the Report, I also reported on the following issues, insofar as they might affect the Current FMIE Policyholders:

- How the experience of the Current FMIE Policyholders would differ between pre and post Scheme in the event of the insolvency of one of the Parties; and
- The impact of the Scheme on policy servicing for the Current FMIE Policyholders.

6.5 As at the date of this Supplemental Report, I am unaware of any developments that would be sufficiently material to cause me to amend my analysis of any of the above issues, or to change the conclusions on each that I set out in Section 8 of the Report.

CONCLUSION FOR THE CURRENT FMIE POLICYHOLDERS

6.6 Therefore, I continue to be satisfied that the Scheme will not affect in a materially adverse way either the security or the policy servicing levels of the Current FMIE Policyholders.

7. Other considerations

APPROACH TO COMMUNICATION WITH POLICYHOLDERS

- 7.1 I have been informed that all communications concerning the Scheme have been carried out as per the plans detailed in the Report. This has included:
- Notifying by email 485 Transferring Policyholders;
 - Notifying by email 1,218 active brokers;
 - Advertising the Scheme in *The Times*, *Financial Times* and *Luxemburger Wort* and in each of the *London Gazette*, the *Edinburgh Gazette* and the *Belfast Gazette*.
 - Establishing a page on the FM website (<https://www.fm.com/uk/regulatory/insurance-business-transfer>), from which interested parties can download information relating to the Scheme, including the Report.
- 7.2 A log is being maintained detailing all responses received from the recipients of the communications. I have seen copies of the log, most recently as at 1 November 2024. This showed that:
- One recipient had requested documentation;
 - 24 recipients had made “general enquiries” – I have reviewed these to check that they have been appropriately classified and have found that:
 - The largest portion have sought confirmation that the Scheme will have no impact upon them (other than to amend the details of to whom they should send premiums);
 - Some have queried why they have received the notification;
 - Others have requested a list of the contracts relevant to them that might be affected by the Scheme;
 - One sought FMIE’s registration number;
 - Another has queried which entity, post-Scheme, will be providing cover in various different locations.
 - No recipient had made a complaint;
 - No recipient had raised an objection to the Scheme.
- 7.3 I understand that all enquiries were responded to in a timely manner. I have reviewed a sample of the responses received from the recipients of the communications and the corresponding replies on behalf of the parties and have concluded that they have been recorded and dealt with appropriately.
- 7.4 I have been informed that 39 notification emails were “bounced-back”. In accordance with the communications plan, alternative contact details have been sought and, where these contacts have not already been notified by other means regarding the Scheme, the notification emails have been reissued to those alternative contact addresses. Two of the resent emails failed to deliver via that distribution and so FMI made direct contact with the relevant Transferring Policyholders to ensure that they received the notifications.
- 7.5 Between the date of the Directions Hearing and the date of this Supplemental Report, five Transferring Policies have been underwritten by or on behalf of FMI (“**New Transferring Policies**”). Prior to the inception of each and every New Transferring Policy, FMI has notified the prospective policyholder regarding the Scheme, either via the Active Broker (if there is one) or directly.

Conclusion regarding communication with policyholders

7.6 I consider that the communications effected by the Parties, as outlined above, have been in line with the communications plan that I summarised in the Report.

OTHER

7.7 In the Report, I also reported on the following features:

- the impact of the Scheme on the assets and liabilities of FMI and FMIE;
- operational plans of each of FMI and FMIE, including;
 - the impact of the COVID-19 pandemic;
 - the impact of the Ukraine conflict, of the Palestine/Israel conflict, and of other geopolitical matters; and
 - the impact of the prevailing economic conditions, especially regarding interest rates and inflation;
- the treatment of any mis-selling liabilities;
- the effect of the Scheme upon reinsurers of the Transferring Business;
- policyholder expectations;
- what would happen were the Scheme not to proceed;
- the legal jurisdiction that applies to the Transferring Policies;
- the tax implications of the Scheme; and
- the costs of the Scheme.

7.8 As at the date of this Supplemental Report, nothing has occurred since the date of the Report that has caused me to modify in any way:

- my summary of the above features; or
- the conclusions, if any, that I have drawn regarding the effect of those features upon the Scheme or on the different groups of policyholders potentially affected by the Scheme.

7.9 I note in particular that both FMI and FMIE have confirmed to me that they remain content that the summaries that I included within paragraphs 9.5-9.13 of the Report, regarding the impact on the Companies of the COVID-19 pandemic, of the Ukraine conflict, of the conflict in Gaza (and in the West Bank and Southern Lebanon) and of the economic pressures regarding inflation and interest rates, remain appropriate.

8. Final conclusions

- 8.1 I have further considered the effect of the proposed Scheme on the policyholders of FMI and FMIE in the light of the Additional Information made available to me since the date of the Report. In summary, in my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so:
- the Scheme will not materially adversely affect the security of benefits to policyholders of FMI (both those policyholders being transferred under the Scheme and any who remain, post-Scheme, policyholders of FMI) or of FMIE; and
 - the Scheme will not have any impact on service standards experienced by the policyholders of FMI (both those policyholders being transferred under the Scheme and any who remain, post-Scheme, policyholders of FMI) or of FMIE.
 - As such, I confirm that my overall opinion and conclusions as set out in Section 10 of the Report are unchanged.
- 8.2 In reaching this opinion, I have complied in all material respects with the principles set out in paragraph 10.2 of the Report.

DUTY TO THE COURT

- 8.3 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court and have complied with that duty and that I am aware of and have complied with the requirements of Part 35 of the Civil Procedure Rules, of Practice Direction 35 which supplements Part 35 of the Civil Procedure Rules, and of the Guidance for the Instruction of Experts in Civil Claims 2014.

STATEMENT OF TRUTH

- 8.4 I confirm that, insofar as the facts stated in this Supplemental Report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.



Derek Newton / 6 November 2024

Fellow of the Institute and Faculty of Actuaries

Appendix A Definitions

TERM	DEFINITION
Available Capital	Capital available to meet solvency capital requirements.
Capital Cover Ratio	The ratio of Available Capital to Required Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the company.
Category C business	A portfolio of casualty business, comprising both direct and inwards reinsurance covers, written by FMI primarily between 1963 and 1967.
The Companies	The collective term for FMI and FMIE.
The Court	The High Court of Justice of England and Wales.
Current FMIE Policyholders	The policyholders of FMIE immediately pre-Scheme.
Effective Date	The date on and from which the Scheme shall become effective.
EOFs	Eligible Own Funds, i.e. the funds available in an insurer to meet its regulatory SCR.
EU	The European Union.
Excluded Policy	A contract of insurance written or assumed by FMI under which any liability remains unsatisfied or outstanding as at the Effective Date and which would have formed part of the Transferring Business but which, for any reason, is not transferred by order of the Court pursuant to Part VII of FSMA on the Effective Date.
FCA	The Financial Conduct Authority, which is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FG22/1	Guidance published by the FCA in February 2022 relating to Part VII insurance business transfers.
FM	The FM group of companies, comprising Factory Mutual Insurance Company and its worldwide subsidiaries and branches. Formerly, this was known as the FM Global group of companies.
FMIC	Factory Mutual Insurance Company, the parent company in FM.
FMI	FM Insurance Company Limited.
FMI Non-Transferring Policyholders	Those holders of FMI policies that are not being transferred to FMIE.
FMIE	FM Insurance Europe S.A.
FMIE UK Branch	The branch office of FMIE in the UK.
FSMA	Financial Services and Markets Act 2000, the legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
GAAP	Generally accepted accounting principles (“GAAP”) form the standard framework of guidelines for financial accounting used in any given jurisdiction.

IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.
Independent Expert	The Independent Expert prepares the FSMA Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Expert.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
MCR	The Solvency II Minimum Capital Requirement (“MCR”), which defines the point of intensive regulatory intervention. The MCR calculation is less risk sensitive than the SCR calculation and is calibrated to a confidence level of 85% over one year (compared to 99.5% for the SCR). However, there is a minimum amount of MCR that applies to all (re)insurers that are regulated in accordance with the Solvency II framework.
Milliman	Milliman LLP, a member of the group of entities whose ultimate parent is Milliman, Inc.
New Transferring Policy	Any Transferring Policy written for or on behalf of FMI between the date of the Directions Hearing and the date of the Supplemental Report.
ORSA	Own Risk Solvency Assessment, which is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
Part VII Transfer	An insurance business transfer scheme performed in accordance with the requirements set out in Part VII of FSMA.
The Policy Statement	The Statement of Policy issued by the PRA entitled <i>Insurance business transfers</i> , issued in January 2022.
PRA	The Prudential Regulation Authority, which is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
QRTs	Quantitative Reporting Templates, which must be completed by insurers and submitted to the regulator on a regular basis in accordance with Solvency II. The QRTs cover a wide range of quantitative financial information about the insurer including details of its balance sheet, capital requirements and reserves.
Reinsurance	An arrangement with another insurer whereby risks are shared (or passed on). If reinsurance is termed as being “inwards” then the reinsurer in question has accepted risk from an(other) (re)insurer; if reinsurance is termed as being “outwards” then the (re)insurer in question has passed risk to a(nother) reinsurer.
Report	<i>Report of the Independent Expert to the High Court of Justice in England & Wales on the proposed transfer of business from FM Insurance Company Limited to the UK branch of FM Insurance Europe S.A. dated 29 July 2024.</i>

Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (for example the SCR).
The Scheme	In the context of this Report, the proposal that the Transferring Business be transferred from FMI to FMIE under the provisions of Part VII of FSMA.
Scheme Document	The document that sets out the terms of the Scheme.
SCR	Solvency Capital Requirement, which, under Solvency II, is the amount of capital required to ensure continued solvency over a one-year trading time frame with a likelihood of 99.5%.
Solvency II	The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.
Solvency UK	The solvency regime that applies within the UK (which is very similar to Solvency II but which now differs from it in certain aspects).
SUP18	Section 18 of the FCA Supervision Manual.
Supplemental Report	This report, which is supplemental to the Report.
Technical Provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
TPs	Technical Provisions as calculated for Solvency II purposes. As such, they differ from Technical Provisions calculated on a GAAP basis.
Transferee	The entity to which business is being transferred – in the case of the Scheme, this is FMIE (specifically, the FMIE UK Branch).
Transferor	The entity from which business is being transferred – in the case of the Scheme, this is FMI.
Transferring Assets	The assets within the Transferring Business.
Transferring Business	The business of FMI that is to be transferred to FMIE under the Scheme.
Transferring Liabilities	The liabilities within the Transferring Business.
Transferring Policies	The (re)insurance policies that give rise to the Transferring Liabilities.
Transferring Policyholders	The policyholders of the Transferring Business.
TUPE	The Transfer of Undertakings (Protection of Employment) regulations.
US ORSA	ORSA prepared annually by FM in respect of FMIC and in accordance with US regulatory and reporting requirements.
Work Review	Process by which a piece of actuarial work is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.

Appendix B Key sources of Additional Information

B.1. In writing this Supplemental Report, I relied upon the accuracy of certain documents provided by FMI and FMIE. These included, but were not limited to, the following:

Background

- GAAP balance sheet as at 30 June 2024 for
 - FMI (pre-Scheme and post-Scheme)
 - FMIE (pre-Scheme and post-Scheme)
 - FMIE UK Branch (post-Scheme)
- Solvency II/Solvency UK balance sheet as at 30 June 2024 for
 - FMI (pre-Scheme)
 - FMIE (pre-Scheme and post-Scheme)
 - FMIE UK Branch (post-Scheme)
- FMI QRTs as at 30 June 2024 (limited selection)
- FMIE QRTs as at 30 June 2024 (limited selection)

Risks and Solvency Capital

- SCR for FMI and FMIE as at 30 June 2024, including the components of the basic SCR
- Projected SCRs and EOFs for FMIE post-Scheme, as at 30 June 2024 and as at the year-ends 2024-2026

Communications

- Logs of responses to the notifications, with specific details concerning each objection (if any), the most recent of which was provided as at 1 November 2024
- Copies of the notices published in:
 - *Belfast Gazette*
 - *Edinburgh Gazette*
 - *London Gazette*
 - *The Times*
 - *Financial Times*
 - *Luxemburger Wort*

Policy servicing

- EMEA Complaints Standard (dated June 2024)

Other

- Operational Readiness Report (undated)
- Second witness statement of William Kenneth Bradshaw and of Christopher Michael Dempsey.

B.2. Information relating to the items listed above was also gathered during discussions with staff of FMIE and FMI.

Appendix C Letters of representation



Derek Newton
Milliman LLP
11 Old Jewry
London
EC2R 8DU

6 November 2024

Dear Mr Newton,

Letter of Representation – Part VII transfer of business from FM Insurance Company Limited to the UK branch of FM Insurance Europe S.A.

1. INTRODUCTION

I refer to the proposed transfer of the business (the “**Transferring Business**”) of FM Insurance Company Limited (“**FMI**”) to the UK branch of FM Insurance Europe S.A. (“**FMIE**”) by an insurance business transfer scheme (“the **Scheme**”), as defined in Section 105 of the Financial Services and Markets Act 2000 (“**FSMA**”). I, Kevin S Ingram, am Director and have been authorised by FMIE to provide the representations set out in this letter, on its behalf.

2. DATA ACCURACY STATEMENT

I hereby affirm that the data and information provided by FMIE to Derek Newton of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by FM (and its professional advisors) on behalf of FM and, to the best of our knowledge and belief, are accurate and complete in all material respects.

3. OTHER STATEMENTS

- 3.1 To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of the business and practices (including details of specific contracts and claims) of FMIE in either the Independent Expert’s Report dated 29 July 2024 or the Independent Expert’s Supplemental Report dated 6 November 2024 (together the “**Reports**”) on the proposed Scheme.
- 3.2 We have disclosed all the information that, in our opinion, is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme.
- 3.3 We confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and that the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.
- 3.4 We will keep the Independent Expert apprised, up to the date of the Court hearing to sanction the Scheme, of all matters and issues, which, in our opinion, may be relevant to the Independent Expert in opining on the proposed Scheme.
- 3.5 We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final documents (and supporting documents) relating to the Scheme, with full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.

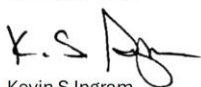
FM Insurance Europe S.A.
One-on-One, 1 route d’Esch
L-1470 Luxembourg

T: +352 2829 4600
fm.com

R.C.S. LUXEMBOURG B211309
Insurance company authorized by the Ministry of Finance and regulated by
the Commissariat Aux Assurances

- 3.6 In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
- The financial positions as stated in the balance sheets of FMIE as at 31 December 2023 and as at 30 June 2024, as summarised in the Reports, give a true and fair view of the affairs of FMIE as at those dates;
 - The Technical Provisions of the business to be received from FMI by the UK Branch of FMIE as a result of the Scheme, as stated as at 31 December 2023 and as at 30 June 2024, provide a true and fair view in accordance with appropriate actuarial standards as at those dates;
 - Other financial projections relating to FMIE provided by us, which the Independent Expert has used to prepare the Reports, have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions.
- 3.7 We confirm that the capital assessments relating to FMIE as at 31 December 2023 and as at 30 June 2024 continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
- 3.8 We confirm that there are currently no plans pursuant to the Scheme to materially change:
- the reserving basis/approach and strength of reserves carried/booked by FMIE; or
 - the capital basis/approach and capital strength adopted by FMIE.
- 3.9 We confirm that the administration and servicing of the Transferring Business with effect from the Scheme's effective date will be as described in the Reports, and that there are currently no plans to change subsequent to the Effective Date the processes, practices and procedures that relate to the administration and servicing of the Transferring Business.
- 3.10 We confirm that there is currently no other relevant information concerning the business written, the claims procedures and the processing situation in FMIE that could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:
- there were no unusual backlogs of unprocessed claims correspondence relating to FMIE as at 31 December 2023 or as at 30 June 2024; and
 - appropriate case estimates were applied to all reported claims that remained open within FMIE, as at 31 December 2023 and as at 30 June 2024.
- 3.11 We confirm that the proposed Scheme is not expected to have tax implications that would affect any of the Transferring Policyholders or any of FMI's existing policyholders.
- 3.12 To the best of our knowledge and belief, there have been no material changes since 30 June 2024 to the operational plans of FMIE that, in our opinion, might have a material impact on the Scheme and which have not been communicated to the Independent Expert.
- 3.13 We confirm that the actual and expected (by us) effects upon FMIE of the COVID-19 pandemic and of the conflicts in Ukraine and Gaza/Lebanon have been appropriately represented in Section 9 of the Independent Expert's Report dated 29 July 2024 and in Section 7 of the Independent Expert's Supplemental Report dated 6 November 2024.
- 3.14 We confirm that there have been no other events that, in our opinion, would have a material impact on the Scheme that have occurred, in respect of FMIE, between 30 June 2024 and the date of this letter.

Yours sincerely,



Kevin S Ingram

Director

For and on behalf of FM Insurance Europe S.A.



Derek Newton
Milliman LLP
11 Old Jewry
London
EC2R 8DU

6 November 2024

Dear Mr Newton,

Letter of Representation – Part VII transfer of business from FM Insurance Company Limited to the UK branch of FM Insurance Europe S.A.

1. INTRODUCTION

I refer to the proposed transfer of the business (the “**Transferring Business**”) of FM Insurance Company Limited (“**FMI**”) to the UK branch of FM Insurance Europe S.A. (“**FMIE**”) by an insurance business transfer scheme (“the **Scheme**”), as defined in Section 105 of the Financial Services and Markets Act 2000 (“**FSMA**”). I, Kevin S. Ingram, am Director and have been authorised by FMI to provide the representations set out in this letter, on its behalf.

2. DATA ACCURACY STATEMENT

I hereby affirm that the data and information provided by FMI to Derek Newton of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by FM (and its professional advisors) on behalf of FM and, to the best of our knowledge and belief, are accurate and complete in all material respects.

3. OTHER STATEMENTS

- 3.1 To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of the business and practices (including details of specific contracts and claims) of FMI in either the Independent Expert’s Report dated 29 July 2024 or the Independent Expert’s Supplemental Report dated 6 November 2024 (together the “**Reports**”) on the proposed Scheme.
- 3.2 We have disclosed all the information that, in our opinion, is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme.
- 3.3 We confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and that the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.
- 3.4 We will keep the Independent Expert apprised, up to the date of the Court hearing to sanction the Scheme, of all matters and issues, which, in our opinion, may be relevant to the Independent Expert in opining on the proposed Scheme.
- 3.5 We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final documents (and supporting documents) relating to the Scheme, with full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.

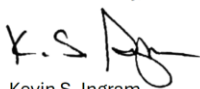
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Authorised by the Prudential Regulation Authority and regulated by the
Financial Conduct Authority and the Prudential Regulation Authority.

- 3.6 In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
- The financial positions as stated in the balance sheets of FMI as at 31 December 2023 and as at 30 June 2024, as summarised in the Reports, give a true and fair view of the affairs of FMI as at those dates;
 - The Technical Provisions of the business to be received from FMI by the UK Branch of FMIE as a result of the Scheme, as stated as at 31 December 2023 and as at 30 June 2024, provide a true and fair view in accordance with appropriate actuarial standards as at those dates;
 - Other financial projections relating to FMI provided by us, which the Independent Expert has used to prepare the Reports, have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions.
- 3.7 We confirm that the capital assessments relating to FMI as at 31 December 2023 and as at 30 June 2024 continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
- 3.8 We confirm that there are currently no plans pursuant to the Scheme to materially change:
- the reserving basis/approach and strength of reserves carried/booked by FMI; or
 - the capital basis/approach and capital strength adopted by FMI.
- 3.9 We confirm that the administration and servicing of the Transferring Business with effect from the Scheme's effective date will be as described in the Reports, and that there are currently no plans to change subsequent to the Effective Date the processes, practices and procedures that relate to the administration and servicing of the Transferring Business.
- 3.10 We confirm that there is currently no other relevant information concerning the business written, the claims procedures and the processing situation in FMI that could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:
- there were no unusual backlogs of unprocessed claims correspondence relating to FMI as at 31 December 2023 or as at 30 June 2024; and
 - appropriate case estimates were applied to all reported claims that remained open within FMI, as at 31 December 2023 and as at 30 June 2024.
- 3.11 We confirm that the proposed Scheme is not expected to have tax implications that would affect any of the Transferring Policyholders or any of FMI's existing policyholders.
- 3.12 To the best of our knowledge and belief, there have been no material changes since 30 June 2024 to the operational plans of FMI that, in our opinion, might have a material impact on the Scheme and which have not been communicated to the Independent Expert.
- 3.13 We confirm that the actual and expected (by us) effects upon FMI of the COVID-19 pandemic and of the conflicts in Ukraine and Gaza/Lebanon have been appropriately represented in Section 9 of the Independent Expert's Report dated 29 July 2024 and in Section 7 of the Independent Expert's Supplemental Report dated 6 November 2024.
- 3.14 We confirm that there have been no other events that, in our opinion, would have a material impact on the Scheme that have occurred, in respect of FMI, between 30 June 2024 and the date of this letter.

Yours sincerely,



Kevin S. Ingram

Director

For and on behalf of FM Insurance Company Limited